

11 July 2018

买入
维持

强强联合

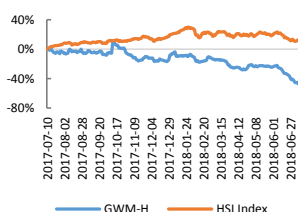
GREAT WALL MOTOR (2333 HK)

Financial summary and valuation

Market Data: 10 July 2018

Closing Price (HK\$)	5.31
Price Target (HK\$)	8.30
HSCEI	10,825
HSCCI	4,322
52-week High/Low (HK\$)	11.77 / 5.17
Market Cap (US\$m)	10,483
Market Cap (HK\$m)	81,900
Shares Outstanding (m)	9,127
Exchange Rate (Rmb-HK\$)	0.84

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

"GWM (2333:HK)-Picking up speed"

April 25, 2018

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	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	98,616	101,169	108,327	117,029	118,692
YOY (%)	29.7	2.6	7.1	8.0	1.4
Net income (Rmbm)	10,551	5,027	8,016	8,843	9,084
YOY (%)	30.9	(52.4)	59.5	10.3	2.7
EPS (Rmb)	1.16	0.55	0.88	0.97	1.00
Diluted EPS (Rmb)	1.16	0.55	0.88	0.97	1.00
ROE (%)	22.3	10.2	14.4	14.2	13.2
Debt/asset (%)	48.7	55.4	54.4	53.1	52.1
Dividend Yield (%)	7.8	3.8	5.9	6.5	6.7
P/E (x)	3.9	8.1	5.1	4.6	4.5
P/B (x)	0.9	0.8	0.7	0.7	0.6
EV/EBITDA (x)	3.8	6.4	4.3	3.8	3.6

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

投资要点:

2018年7月10日,长城汽车与宝马集团签署合资合同,双方拟共同出资成立合资公司光束汽车有限公司,将在新能源汽车、燃油车及相关零部件的生产、销售、出口等领域展开合作。我们认为,此举有望提升长城汽车技术水平和品牌溢价能力,同时缓解公司新能源积分考核压力。由于上半年长城汽车销量不及预期,我们将18年EPS由人民币0.98元下调至0.88元(同比增长60%),将19年EPS由人民币1.15元下调至人民币0.97元(同比增长10.2%),将20年EPS由人民币1.21元下调至人民币1.00元(同比增长3.1%)。我们下调目标价港币8.30元,对应56.3%上升空间,维持买入评级。

携手宝马。2018年7月10日,长城汽车与宝马集团签署合资合同,双方将于江苏张家港经济技术开发区成立合资公司光束汽车有限公司,各持股50%。合资公司总投资额为人民币51亿元,注册资本17亿元。双方将在新能源汽车、燃油车及相关零部件的生产、销售、出口等领域展开合作。合资公司初始规划年产能16万台,且可以根据未来生产计划扩大产能。我们认为中国生产基地将是宝马全球战略的重要布局,长城宝马合资公司有望承担Mini品牌全球销售的责任。合资公司不仅负责Mini品牌的电动及国产化,也将为长城汽车生产新能源车型。目前双方的合作仍在初步阶段,对长城汽车2018年经营业绩并无重大影响。长城与宝马将通过合资公司实现优势互补,合作共赢。宝马将进一步强化在华细分市场,且享受国内完善的产业链和较低的生产成本,在全球市场竞争中保持竞争力。长城有望吸收转化宝马先进的生产技术及管理经验,提高品牌溢价能力,同时缓解公司新能源积分考核压力。

1H18销量弱于预期。上半年长城汽车实现销量47.2万台,同比增长2.3%,仅完成全年销量目标的40.6%。我们预期1H18长城实现净利人民币37亿元,同比增长52.9%。上半年WEY品牌销量7.8万台,低于我们预期约10%,主要原因在于2018年合资品牌入门车型与自主品牌高端车型竞争加剧,WEY销量承压。我们下调18年销量预测至105万台(同比下降1.5%),19年112万台(同比增长6.4%)。由于2Q18起公司主力车型折扣幅度扩大,我们下调毛利率预测至18年19.8%,19年19.9%。

维持买入评级。由于上半年长城汽车销量不及预期,我们将18年EPS由人民币0.98元下调至0.88元(同比增长60%),将19年EPS由人民币1.15元下调至人民币0.97元(同比增长10.2%),将20年EPS由人民币1.21元下调至人民币1.00元(同比增长3.1%)。我们下调目标价港币8.30元,对应56.3%上升空间,维持买入评级。

Investment highlight:

Great Wall Motor (GWM) announced on 10 July that it has entered into a joint venture contract with Bayerische Motoren Werke (BMW:GR) to cooperate in the field of new-energy vehicles (NEVs), fuel-engined vehicles and related components. We expect the potential collaboration to improve GWM's brand image, give the company exposure to advanced technology, and help it achieve its NEV credits target in the long-term. Given weakening sales in 1H18, we lower our diluted EPS forecasts from Rmb0.98 to Rmb0.88 in 18E (+60% YoY), from Rmb1.15 to Rmb0.97 in 19E (+10.2% YoY), and from Rmb1.21 to Rmb1.00 in 20E (+3.1% YoY). We lower our target price from HK\$11.00 to HK\$8.30. With 56.3% upside, we maintain our BUY rating.

Cooperation with BMW. The company announced on 10 July 2018 that it will set up a joint venture company, Spotlight Automotive, with BMW in Zhangjiagang, Jiangsu Province. GWM and BMW will each hold 50% of interest in the joint venture. Total investment amount was Rmb5.1bn, with a registered capital of Rmb1.7bn. The parties will cooperate in the field of manufacturing, selling and exporting new-energy vehicles (NEVs), fuel-engined vehicles and related components. The initial annual capacity is 160k units, and the capacity can be expanded according to future production plan. We believe the higher-than-expected designed capacity implied that China is acting as a strategic production plant in BMW's globalisation plan. The joint venture will not only focus on the *Mini* brand, but also produce electric models for GWM. The cooperation between the two parties is still at a preliminary stage, and will have no material impact on GWM's 2018 earnings. However, we believe the cooperation will be beneficial for both parties. BMW will enhance its market share and maintain pole position in the rapidly growing NEV market in China, while, for GWM, the partnership will improve its brand image, give the company exposure to advanced technology, and help it achieve its NEV credits target in the long-term.

Weakening sales in 1H18. The company realised total sales volume of 471.5k units in 1H18 (+2.3% YoY), representing 40.6% of its annual sales target. We expect the company to report net profit of Rmb3.7bn in 1H18 (+52.9% YoY). The firm's *WEY* brand sales totalled 77.6k units in 1H18, c.10% lower than our previous estimate. We believe the weaker-than-expected sales was mainly due to intensifying competition between entry-level products of mass market brands and high-end models of domestic brands. With ongoing pressure from foreign brands, we lower our sales forecast to 1.05m units in 18E (-1.5% YoY) and 1.12m units in 19E (+6.4% YoY). Although the company is making efforts to control costs, given rising retail discounts for *WEY* models since 2Q18, we lower our gross margin forecast to 19.8% in 18E and 19.9% in 19E.

Maintain BUY. Given weakening sales in 1H18, we lower our diluted EPS forecasts from Rmb0.98 to Rmb0.88 in 18E (+60% YoY), from Rmb1.15 to Rmb0.97 in 19E (+10.2% YoY), and from Rmb1.21 to Rmb1.00 in 20E (+3.1% YoY). We lower our target price from HK\$11.00 to HK\$8.30 (8x 18E PE), and with 56.3% upside, we maintain our BUY rating.

Car pooling

Great Wall Motor (GWM) announced on 10 July that it has entered into a joint venture contract with Bayerische Motoren Werke (BMW:GR) to cooperate in the field of new-energy vehicles (NEVs), fuel-engined vehicles and related components. We expect the potential collaboration to improve GWM's brand image, give the company exposure to advanced technology, and help it achieve its NEV credits target in the long-term.

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Fig 1: GWM's sales forecast, by model

Unit sales breakdown	2016	2017	2018E	2019E	2020E
H2	196,926	215,100	100,000	100,000	100,000
H4			50,000	60,000	60,000
H6	580,683	506,418	470,000	483,500	483,500
M6		35,473	50,000	50,000	50,000
Others	153,444	94,865	66,114	60,000	60,000
Haval	931,053	851,856	736,114	753,500	753,500
VV5		33,658	90,000	100,000	100,000
VV6			10,000	40,000	50,000
VV7		52,769	90,000	100,000	100,000
WEY		86,427	190,000	240,000	250,000
Sedan	32,140	12,033	8,000	8,000	8,000
Pick-up	105,621	119,846	120,000	120,000	120,000
Total vehicles	1,068,814	1,070,162	1,054,114	1,121,500	1,131,500
YoY growth	25.7%	0.1%	-1.5%	6.4%	0.9%

Source: Company data, SWS Research

Fig 2: Monthly sales for WEY models

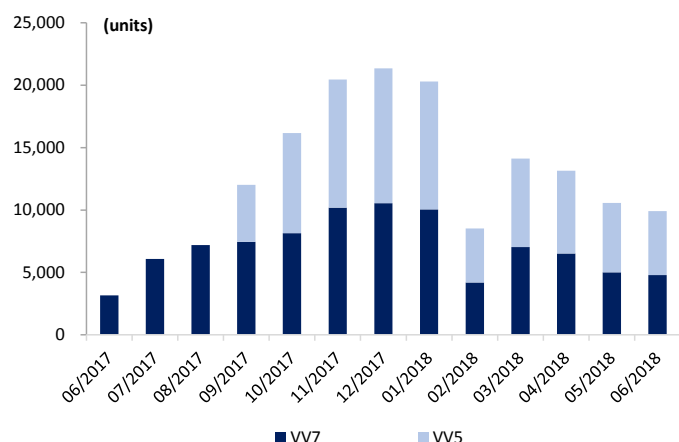
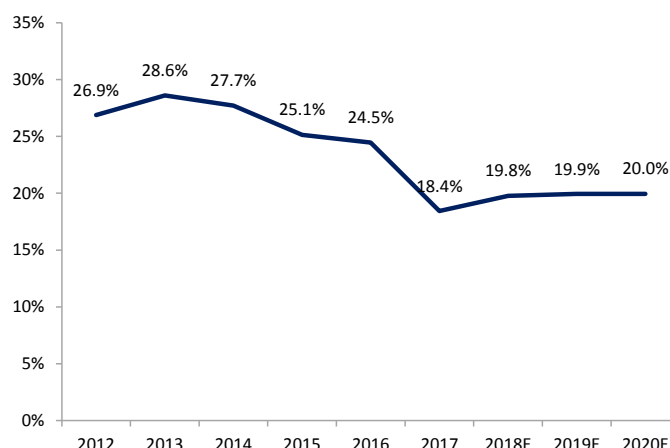


Fig 3: GWM's gross margin forecast



Source: Company, SWS Research

Valuation

Given weakening sales in 1H18, we lower our diluted EPS forecasts from Rmb0.98 to Rmb0.88 in 18E (+60% YoY), from Rmb1.15 to Rmb0.97 in 19E (+10.2% YoY), and from Rmb1.21 to Rmb1.00 in 20E (+3.1% YoY).

We lower our target price from HK\$11.00 to HK\$8.30 (8x 18E PE), and with 56.3% upside, we maintain our BUY rating.

Fig 4: Forward PE ratio



Source: Bloomberg, SWS Research

Appendix

Consolidated Income Statement

Rmbm	2016	2017	2018E	2019E	2020E
Revenue	98,616	101,169	108,327	117,029	118,692
Cost of Sales	74,360	81,967	85,985	92,503	93,580
Gross Profit	24,255	19,203	22,341	24,526	25,113
Other Income	30	462	124	124	124
Selling/General/Admi. Expenses	3,175	4,406	4,502	4,853	4,910
Ebitda	4,575	4,963	3,323	3,599	3,561
Ebit	14,671	8,750	13,016	14,614	15,525
Finance Costs	12,276	5,854	9,498	10,477	10,750
Profit before tax	13	218	764	993	1,192
Income tax expense	12,483	6,233	9,916	10,938	11,234
Minority interests	1,929	1,190	1,884	2,078	2,135
Profit for the year	3	16	16	16	16

Source: Company data, SWS Research

Consolidated Cash Flow Statement

Rmbm	2016	2017	2018E	2019E	2020E
Profit before taxation	12,483	6,233	9,916	10,938	11,234
Plus: Depr. and amortisation	2,552	3,188	3,528	3,887	4,282
Finance cost	11	97	764	993	1,192
Losses from investments	(30)	(124)	0	0	0
Change in working capital	1,295	2,006	11,196	2,714	1,363
Others	(7,475)	(12,478)	(19,758)	(11,893)	(9,940)
CF from operating activities	8,835	(1,077)	5,646	6,639	8,131
Capex	6,684	5,822	3,636	4,048	4,508
Other CF from investing activities	(15,052)	(8,878)	(7,272)	(8,095)	(9,016)
CF from investing activities	(8,367)	(3,056)	(3,636)	(4,048)	(4,508)
Equity financing	922	0	0	0	0
Net change in liabilities	0	17,262	1,484	1,601	1,605
Dividend and interest paid	(1,738)	(3,362)	(1,552)	(2,405)	(2,653)
Other CF from financing activities	(300)	(7,811)	0	0	0
CF from financing activities	(1,116)	6,089	(68)	(803)	(1,048)
Net cash flow	(648)	1,957	1,942	1,788	2,575

Source: Company data, SWS Research

Consolidated Balance Sheet

Rmbm	2016	2017	2018E	2019E	2020E
Current Assets	53,928	69,293	77,264	83,461	89,728
Bank balances and cash	2,154	4,831	6,773	8,561	11,137
Trade and other receivables	40,304	49,949	54,416	57,251	59,353
Inventories	6,061	5,575	6,285	6,929	7,467
Other current assets	5,409	8,939	9,790	10,720	11,770
Long-term investment	0	0	0	0	0
PP&E	24,715	27,718	31,044	34,769	38,942
Intangible and other assets	13,666	13,536	13,846	14,218	14,603
Total Assets	92,309	110,547	122,154	132,449	143,273
Current Liabilities	43,252	58,881	63,822	67,464	71,779
Borrowings	250	13,038	14,342	15,776	17,354
Trade and other payables	29,172	31,841	34,340	35,715	37,644
Other current liabilities	13,830	14,002	15,140	15,973	16,781
Long-term liabilities	1,703	2,408	2,610	2,824	2,902
Total Liabilities	44,956	61,289	66,432	70,288	74,681
Minority Interests	59	123	123	123	123
Shareholder Equity	47,354	49,258	55,722	62,161	68,592
Share Capital	9,127	9,127	9,127	9,127	9,127
Reserves	38,168	40,007	46,472	52,910	59,341
Total Equity	47,295	49,135	55,599	62,038	68,468
Total Liabilities and equity	92,309	110,547	122,154	132,449	143,273

Source: Company data, SWS Research

Key Financial Ratios

	2016	2017	2018E	2019E	2020E
Ratios per share (HK\$)					
Earnings per share	1.16	0.55	0.88	0.97	1.00
Diluted EPS	1.16	0.55	0.88	0.97	1.00
Operating CF per share	0.97	0.94	0.62	0.73	0.89
Dividend per share	0.35	0.17	0.26	0.29	0.30
Net assets per share	5.19	5.40	6.11	6.81	7.52
Key Operating Ratios (%)					
ROIC	21.8	7.6	10.9	10.8	10.1
ROE	22.3	10.2	14.4	14.2	13.2
Gross profit margin	11.4	4.5	6.6	6.7	6.3
Ebitda Margin	14.9	8.6	12.0	12.5	13.1
Ebit Margin	12.4	5.8	8.8	9.0	9.1
Growth rate of Revenue(YoY)	29.7	2.6	7.1	8.0	1.4
Growth rate of Profit(YoY)	30.9	-52.4	59.5	10.3	2.7
Debt-to-asset ratio	48.7	55.4	54.4	53.1	52.1
Turnover rate of net assets	2.1	2.1	1.9	1.9	1.7
Turnover rate of total assets	1.1	0.9	0.9	0.9	0.8
Effective tax rate (%)	15.5	19.1	19.0	19.0	19.0
Dividend yield (%)	7.8	3.8	5.9	6.5	6.7
Valuation Ratios (x)					
P/E	3.9	8.1	5.1	4.6	4.5
P/B	0.9	0.8	0.7	0.7	0.6
EV/Sale	0.6	0.5	0.5	0.5	0.5
EV/EBITDA	3.8	6.4	4.3	3.8	3.6

Source: Company data, SWS Research

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Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

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Equal weight: Industry performs about the same as that of the whole market;

Underweight: Industry performs worse than that of the whole market.

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HSCEI is the benchmark employed in this report.

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